

5 SAMPLE PAPER [SOLVED]

Time Allowed: 3 Hours

Max. Marks: 80

General Instructions: Same as CBSE Sample Question Paper-2020 (Solved).

SECTION-A (Macroeconomics)

1. If cash reserve ratio = 5% of deposits, the credit multiplier = _____ 1
(5/10/20).
2. Define national product. (Fill up the blank with correct alternative) 1
3. Marginal propensity to save can never be _____ 1
(Choose the correct alternative)
(a) zero (b) one
(c) positive (d) negative
4. What do you mean by open market operations? 1
Or
Define money supply. 1
5. In order to encourage investment in the economy, the Central Bank may _____ 1
(Choose the correct alternative)
(a) reduce Cash reserve Ratio
(b) increase Cash Reserve Ratio
(c) sell government securities in open market
(d) increase bank rate
6. Central bank _____ in the open market to correct the situation of inflationary gap. 1
(Fill up the blank with correct answer)
7. State whether the given statement is true or false:
'In order to restore the value of depreciating domestic currency, central bank sells the US dollars in the international money market.' 1
8. Fiscal deficit is an estimate of _____ 1
(Fill up the blank with correct answer)

Column II

9. From the set of statements:
Column I
 (a) Current account of balance of payments
 (b) Invisible items of balance of payments
 (c) Capital account of balance of payments
 (d) Balance of payments equilibrium

- (i) A part of balance of trade
 (ii) Can be seen crossing the border
 (iii) International sale and purchase of financial assets
 (iv) Movement of official reserves

10. Purchase of shares is related to _____ in government budget.
 (Fill up the blank with correct answer)

11. Can gross domestic product be used as an index of welfare of the people? Give reasons.
 12. An economy is in equilibrium. The economy's consumption function $C = 160 + 0.6Y$ where C is consumption expenditure and Y is national income. National income is ₹ 1,400. Find out the equilibrium level of consumption expenditure and investment expenditure.

- In an economy, the consumption function is $C = 230 + 0.7Y$ where C is consumption expenditure and Y is income. Calculate the equilibrium level of income and consumption expenditure when investment expenditure is 400.
 13. Explain the process of credit creation by commercial banks.
 14. Devaluation and depreciation of currency are one and the same thing. Do you agree? How do they affect the exports of a country?

Or

- What is meant by 'official reserve transactions'? Discuss their importance in balance of payments.
 15. Explain the role the government can play through the budget in influencing allocation of resources.

16. (a) Which of the following items will be included/not included while estimating gross domestic product of India? Give valid reasons in support of your answer.
 (i) Wages received by an Indian working in the British embassy in India.
 (ii) Financial aid received from abroad after 'Fani Cyclone'.

- (b) Calculate 'Compensation of Employees' from the following data:
 (₹ in thousand)

- Items**
 (i) Wages in cash 2,500
 (ii) Employees' contribution to social security schemes 5,000
 (iii) Medical allowance 500
 (iv) Employers' contribution to social security schemes 2,000

Or

- (a) Explain the circular flow of income. 3+3
 (b) Calculate 'Intermediate Consumption' from the following data: (₹ in crore)

- Items**
 (i) Gross value of output 300
 (ii) Net value added at factor cost 100
 (iii) Subsidies 15
 (iv) Depreciation 30

17. State which of the following statements are true or false. Give valid reasons.
 (a) According to Keynesian theory of employment, ex-ante savings and ex-post savings are always equal.
 (b) In a two sector economy, if income is zero, average propensity to consume will also be zero.
 (c) Value of investment multiplier varies between zero and infinity.

SECTION-B (Indian Economic Development)

18. India's first official census operation was undertaken in which year? 1
 19. State whether the following statement is true or false:
 During the British rule, Indian economy achieved comparative advantage in the export of industrial goods. 1
 20. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: 1

Column I

Column II

- (a) First Plan (1951-56) (i) Focussed on rapid industrialisation-heavy and basic industries
 (b) Second Plan (1956-61) (ii) To make India a 'self-reliant' and 'self-generating' economy
 (c) Third Plan (1961-66) (iii) Focussed on 'removal of poverty' (*Garibi Hatao*) and 'attainment of self-reliance'
 (d) Fifth Plan (1974-79) (iv) Focussed on agriculture

21. A strategy of such goods which _____ of such goods which _____
(Choose the correct alternative)

- (a) inward looking strategy
- (b) outward looking strategy
- (c) export promotion strategy
- (d) none of these

22. Based on the new official poverty line, in 2011-12, poverty rate in India is estimated to be _____
(Fill up the blank with correct answer)

Percentage of population below poverty line is called _____
(Fill up the blank with correct answer)

23. According to census 2011, barely _____ of the population is illiterate as against 90 to 95 per cent literacy in developed countries of the world.
(Fill up the blank with correct answer)

24. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I

Column II

- (a) Casual workers
 - (b) Regular workers
 - (c) Labour supply
 - (d) Labour force
- (i) The amount of labour that the workers are willing to offer corresponding to a particular wage rate
 - (ii) The number of workers actually working or willing to work
 - (iii) On the permanent pay-roll of their employers
 - (iv) Daily wagers, not hired by the company on regular basis

25. _____ of the workforce is defined as the percentage of workforce in the formal sector tends to decline and that in the informal sector tends to rise.
(Casualisation/Informalisation)
(Fill up the blank with correct alternative)

26. China has a very less proportion of cultivable land due to which of the following reason(s)?
(Choose the correct alternative)

- (a) Topographic conditions
- (b) Climatic conditions
- (c) Economic conditions
- (d) Both (a) and (b)

27. Due to introduction of 'one-child policy', China's fertility rate declined from _____ to _____
(Choose the correct alternative)

- (a) 3 to 1
- (b) 2 to 1
- (c) 3 to 1.8
- (d) None of these

28. In the last decade of Indian economy, we have been witnessing the phenomenon of educated unemployment. How do you explain?
Or

Distress sale of the small and marginal holders points to deficiency of marketing infrastructure in India. Comment.

29. Discuss the role of three services needed in the process of power generation. Do you think that their ownership should be in different hands? 3

30. While discussing the merits of the LPG reforms in India, bring out the challenge that lies ahead for the Indian economy. 4

31. Do you find the concept of market forces in contradiction with the concept of comprehensive planning in India? Write your opinion with a logical reasoning. 4
Or

How will the growth of food processing industry help solve the problem of disguised unemployment in Indian agriculture? 4

32. Comment on the growth rate trends witnessed in China and India in the last two decades. 4

33. "Lately, the country has witnessed increased instances of farm loan waivers (farmers' loans being written off). Do you think it is economically viable? What should be the consideration for such write-offs? 6

34. What is meant by poverty? Explain the principal causes of poverty in India with reference to underdevelopment of the Indian economy. 6
Or

Why is India one of the most favourable medical tourism destinations in the world? 6

- 20
- National product (or national income) is the sum total of factor incomes (rent + interest + profit + wages) earned by normal residents of a country during a period of one year.
- (d) negative
- Open market operations refer to the sale and purchase of government securities in the open market by the central bank of the country.

Or

Money supply refers to the total quantity or stock of money available in the economy at a point of time.

- (a) reduce Cash reserve Ratio
- sells government securities
- True
- borrowings by the government
- (c) Capital account of balance of payments—(iii) International sale and purchase of financial assets
- capital expenditure

11. Often gross domestic product (GDP) is considered as an index of welfare of the people, but there are strong exceptions to this generalisation. Following are the reasons:

(a) If with every increase in the level of GDP, distribution of GDP is getting more unequal, welfare level of the society may not rise. Only fewer people tend to benefit from an unequal distribution. Hence, the gulf between haves and have-nots may increase which results in lesser welfare of the society.

(b) Composition of GDP may not be welfare oriented even when the level of GDP tends to rise. There is no direct increase in the welfare of the masses if GDP has risen owing largely to the increase in the production of defence goods.

12. Given, consumption expenditure (C) = 160 + 0.6Y
National income (Y) = ₹ 1,400
Consumption expenditure, C = 160 + 0.6Y

$$= 160 + 0.6(1,400)$$

$$= 160 + 840$$

$$= 1,000$$

At equilibrium,

$$Y = C + I$$

$$I = Y - C$$

$$= 1,400 - 1,000$$

$$= 400$$

Equilibrium level of consumption expenditure, C = ₹ 1,000.

Equilibrium level of investment expenditure, I = ₹ 400.

Or

Given, C = 230 + 0.7Y

Investment expenditure (I) = 400

At equilibrium,

$$Y = C + I$$

$$Y = 230 + 0.7Y + 400$$

$$Y = 630 + 0.7Y$$

$$Y - 0.7Y = 630$$

$$0.3Y = 630$$

$$Y = \frac{630}{0.3} = 2,100$$

$$C = 230 + 0.7(2,100)$$

$$= 230 + 1,470$$

$$= 1,700$$

When Y = 2,100,

Equilibrium level of income, Y = 2,100.

Equilibrium level of consumption expenditure, C = 1,700.

13. Credit creation is an important function of the commercial banks. Following observations highlight how it happens:

(a) Banks receive cash deposits from the people.

(b) Banks lend many times more than their cash reserves.

(c) Lending is done not in cash but by way of opening demand deposits in favour of the borrowers. Thus, cash reserves of the banks are only a small percentage of their demand deposits. This is possible because, banks by way of their historical experience know that only a small percentage of deposits is withdrawn as cash during a period of time. Banks enjoy confidence of the people that their money is safe with the banks.

(d) **Example:** If cash reserves of the commercial banks are ₹ 10,000 and their demand deposits (total liability of the commercial banks towards the people) are ₹ 10,000, then the commercial banks have converted ₹ 10,000 into ₹ 1,00,000. Implying that the supply of money through deposit/credit creation amounts to ₹ 1,00,000, even when cash reserves of the banks are only ₹ 10,000

$$\text{Credit multiplier} = \frac{1,00,000}{10,000} = 10.$$

(According to CRR) are to be kept by the commercial banks. These cash reserves, the commercial banks with the central bank. Beyond these legally required cash reserves, the commercial banks with the central bank keep some reserves with themselves. These are called 'chest cash'. Devaluation and depreciation are different terms.

14. Devaluation is the fall in the value of domestic currency in relation to foreign currency as planned by the government. It happens in situations when exchange rate is not determined by the forces of supply and demand, but is fixed by the government of different countries.

Depreciation, on the other hand, is the fall in the value of domestic currency in relation to foreign currency when exchange rate is determined by the forces of supply and demand in the international money market.

However, both devaluation and depreciation lead to a fall in the value of domestic currency in relation to the foreign currency. Consequently, domestic goods become cheaper in terms of foreign currency. Accordingly, exports tend to rise (while imports are discouraged).

Or

Transactions that cause changes in the official reserves of the central bank are known as official reserve transactions.

When current account balance and capital account balance is not equal to zero, there is movement of official reserves of the central bank.

When current account balance and capital account balance is equal to zero, there is no movement of official reserves of the central bank.

Accommodating items in the balance of payments relate only to the movement of official reserves with a view to correcting BoP imbalance.

Thus, official reserves are reduced when there is BoP deficit and are increased when there is BoP surplus.

Briefly, official reserves are used to eliminate the situations of surplus and deficit BoP.

15. Market economies are believed to achieve optimum allocation of resources producing such goods and services which the consumers wish to buy. But the optimal allocation of resources achieved through the market forces of supply and demand does not necessarily mean an efficient allocation of resources in terms of social welfare. Social welfare often suffers as the market economies do not produce

enough of public goods which satisfy collective needs of the society. Also, these economies fail to account for externalities of production which often lead to loss of social welfare on account of environmental degradation (including environmental pollution and excessive exploitation of the non-renewable resources). Through its budgetary policy, the government makes sufficient provision for the supply of public goods (like law and order, defence, public administration). It also addresses environmental issues by offering subsidies on the use of cleaner energy (CNG, LPG, solar and wind energy).

16. (a) (i) Wages received by an Indian working in the British embassy in India is not included in gross domestic product of India because British embassy is not a part of domestic territory of India, as British embassy is a part of economic territory of Britain.

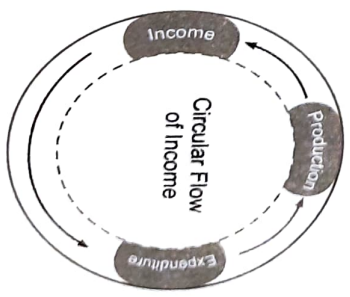
(ii) Financial aid received from abroad is not included while estimating the value of gross domestic product of India. This is because financial aid is a transfer payment.

(b) Compensation of Employees
 = Wages in cash + Medical allowance + Employers' contribution to social security schemes
 = ₹ 2,500 thousand + ₹ 500 thousand + ₹ 2,000 thousand
 = ₹ 5,000 thousand

Compensation of employees = ₹ 5,000 thousand.

Or

(a) The flow of production, income and expenditure is a circular flow. Production gives rise to income, income gives rise to demand for goods and services, and demand in turn gives rise to expenditure. Expenditure leads to further production. Thus, the flow of production, income and expenditure becomes circular with no beginning or no end. This flow is shown in the figure given below:



+ Subsidiary = ₹ 100 crore
= ₹ 300 crore
= ₹ 185 crore

Intermediate savings are those savings which people intend to spend in the economy during the period of one year. Ex-post savings refer to actual savings in the economy during the period of one year. So, the two may or may not be equal.

(b) False. If income is zero, average propensity to consume will not be equal to 1. Because, there is always some minimum level of consumption (minimum consumption) in the economy even when income level is zero.

APC ($= \frac{C}{Y}$) will not be zero.

(c) False. Value of investment multiplier varies between one and infinity. Minimum value of investment multiplier is 1. It can never be less than 1 because MPC is never negative. At least it is = 0, and most it is = ∞.

In case MPC = 0,

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0} = \frac{1}{1} = 1$$

In case MPC = 1,

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 1} = \frac{1}{0} = \infty$$

So that value of K (multiplier) always varies between 1 and ∞ (infinity).

SECTION-B (Indian Economic Development)

18. 1881
19. False
20. (a)-(iv), (b)-(i), (c)-(ii), (d)-(iii)
21. (a) inward looking strategy
22. 21.9 per cent

Or

23. 74.04
24. (a)-(iv), (b)-(iii), (c)-(i), (d)-(ii)
25. Informalisation
26. (d) Both (a) and (b)
27. (c) 3 to 1.8

28. When an educated person is unable to find a suitable job, there emerges a situation of educated unemployment. Following are the principal causes leading to educated unemployment in India.

- (a) On account of rapid expansion of educational institutions, viz.: universities, colleges and schools, the number of educated persons has increased tremendously.
- (b) Education system in India is largely degree-oriented, instead of job-oriented.
- (c) Growth process in the country is not preceding according to the needs and means of the country. Instead, it is being driven by labour-saving innovative technology.

Or

Distress sale refers to a situation wherein farmers are compelled to sell their produce immediately after the harvest, no matter whether market price of the produce is favourable or not. It happens where institutional sources of credit are still inadequate. In India, most of the agricultural credit is sourced through non-institutional sources such as moneylenders, traders and commission agents. Credit is easily available through these sources. But, often it is tied with the sale of crops to the lenders. Distress sale thus becomes unavoidable.

The three services required in the process of power generation are the following:

- (a) Generation of electricity.
- (b) Transmission of electricity.
- (c) Distribution of electricity.

The ownership of these three services should be in different hands. Both the government as well as the private players can operate in the field of generation of electricity. With respect to transmission of generated electricity, it should better be left for the government to take care of. Distribution of electricity will be best served if it is operated by private players.

30. Economic reforms of 1991 (LPG reforms) created mixed reactions at different levels in the country. The economy witnessed significant gains in terms of increase in rate of economic growth, inflows of foreign investment, rise in foreign exchange reserves, rise in exports, control on inflation, recognition of India as an emerging economic power and a shift from state monopoly to competitive market. However, the LPG policies have had its own set of challenges, in terms of growing unemployment, neglect of agriculture, urban concentration of growth process, spread of consumption, lopsided pattern of growth, unbalanced growth among others.

Infact, pursual of LPG policies was to a great extent a matter of economic compulsion rather than a matter of choice. What is to be recommended is that LPG policies are pursued with guarded precautions. These precautions include:

- (a) a watch against big players (MNCs) in the international market and the need to safeguard the economic interests of our domestic producers, and the need to channelisation of foreign investments (FDI) more into areas of infrastructure growth and development. It stressed on the need for a leading role of the private sector enterprises, allowing private enterprises to play only a secondary role of the free play of the market forces was certainly inhibited. It was also inhibited to the extent that controls and quotas were widely practiced as a strategy of planning in India. Yet, comprehensive planning in India should not be misinterpreted as a model of growth that did not allow the free play of the market forces. The market forces in a manner such that the scarce resources of the country were most optimally utilised, promoting growth with social justice.

Or

The problem of disguised unemployment is rampant in rural sector of the Indian economy. Lack of jobs outside agriculture is the root cause of this problem. It is further compounded by the fact that the level of productivity has tended to rise, owing to mechanisation of agriculture, leading to a fall in the requirement of labour. Growth of food processing industry will create job opportunities outside farming occupations hoping to get higher wages and permanent employment. Farm output will not suffer, because more workers are already engaged in farming than required. Food processing and rise in agricultural production will increase the amount of work that needs to be done in farms.

32. In the last two decades, China surpassed India in achieving higher rate of growth. It managed to achieve the GDP growth rate of nearly 10 per cent per annum and that too almost consistently. In case of India, GDP growth rate is yet to touch the double digit. Between 1979-2017, average annual GDP growth in China was estimated to be about 9 per cent. It reached its peak (15.2 per cent) in 1984, and touched its bottom (3.8 per cent) in 1990. In 2018, GDP growth rate was 6.6 per cent. The GDP growth in India showed a substantial rise only after 1991, when the country embarked on reform path, the year when New Economic Policy was launched. However, India has failed to take big leaps, unlike China.
33. More than fifty per cent of the population in India is directly or indirectly dependent on agriculture for its source of living. There are approximately 12.56 crore small and marginal farmers in the country. Agriculture in India is yet to modernise to the extent required. Given the distress in the agriculture sector and the deteriorating conditions of farmers in the country, there are repeated instances of farm loan

waivers in the country. In spite of their welfare motive, farm loan waivers are a drain on state finances. If this practice of farm loan waiver continues unabated, it will be harmful for the economy with its limited financial resources. Instead, it government should analyse the reasons behind the non-payment of farm loans and address them accordingly. Loan waivers should not be motivated by political reasons. These should be related to economic hardships of the farmers arising out of such factors as crop-failure due to droughts, floods or other natural calamities. Poverty is defined as the inability to fulfill the minimum requirements of life viz. food, clothing, housing, education and health facilities. It implies the inability to get minimum consumption requirements for life, health and efficiency.

34. The principal causes of poverty in India are as follows:
- Low Level of National Product per capita:** Net national product of India per capita is miserably low compared to its size of population. This implies greater poverty.
 - Low Rate of Growth:** Rate of growth of economy has been quite low during Five Year Plans in India. Low growth rate of per capita income has tended to sustain poverty.
 - Heavy Pressure of Population:** Population has been rising at a rapid pace. Heavy pressure of population adds to dependency burden, implying greater poverty.
 - Inflationary Pressure:** Owing to low GDP growth and high growth rate of population, less developed economies like India are vulnerable to inflationary spiral. It means a situation of persistent rise in prices. Inflation compounds poverty. It erodes real income of the households.
 - Chronic Unemployment and Underemployment:** India is a country sustaining chronic unemployment and underemployment. Poverty is just a reflection of unemployment.
 - Capital Deficiency:** Capital stock and capital formation continue to be highly deficient. Lack of capital points to low production capacity. In turn, low production capacity leads to low level of employment. And, low level of employment implies high level of poverty.

Or

- India is emerging as one of the most favourable medical tourism destinations in the world. The rise is on account of the following reasons:
- Cost of medical treatment in India is significantly lower than in most of the developed countries of the world.
 - India offers high quality medical services, especially tertiary healthcare which are at par with those offered in the west at significantly high price.